

STATE OF MAINE  
PUBLIC UTILITIES COMMISSION

Docket No. 2003-418

July 7, 2003

BANGOR HYDRO-ELECTRIC COMPANY  
Application for Approval of Issuance of  
Securities (§902) (\$30 Million Senior  
Unsecured Notes)

ORDER APPROVING  
ISSUANCE OF  
SECURITIES

WELCH, Chairman; DIAMOND & REISHUS, Commissioners

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**I. SUMMARY**

On June 9, 2003, Bangor Hydro-Electric Company (BHE or the Company) filed with the Commission its application for authority to issue up to \$30 million in fixed-rate unsecured notes through Fleet Securities, Inc. (Fleet or FSI) for period not to exceed 15 years. The Company intends to use the proceeds of this issuance to refinance maturing long-term debt. These securities will be offered on a private placement basis and the fixed interest rate is not expected to exceed a margin of 2.30% over the yield of U.S. Treasury Notes with a comparable maturity. This Order approves BHE's request.

**II. BACKGROUND & DISCUSSION**

During June 2003 approximately \$35 million of BHE's existing long term has matured and was temporarily funded with the Company's variable-rate short-term revolving credit facility. With fixed interest rates for medium and long-term debt at historically low levels, the Company has chosen to refinance \$30.0 million of this revolving debt with the unsecured notes proposed herein. Depending on future market conditions, BHE may choose to refinance an additional \$20 million in short-term or other debt later this year.<sup>1</sup> While BHE's revolving credit facility will remain in place, the Company is not characterizing this issuance as "new money."

BHE has chosen a 15-year maturity and will make eleven equal principal payments of \$1.36 million annually beginning in the 5<sup>th</sup> year of the agreement. Current indications from FSI are that the fixed interest rate will not exceed 2.30% (or 230 basis points) over comparable U.S. Treasury securities. Because of the amortization schedule of the notes, this issuance will have a 10-year average life. Based on the Federal Reserve's H.15 publication released on June 24, 2002, the 10-year Treasury Bond rate was 4.83%. This would indicate a fixed interest rate to BHE of not more than 7.13%. In addition, FSI and BHE have agreed on a private placement issuance fee of

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<sup>1</sup> BHE will file for the necessary Commission approval when its future plans are determined.

\$200,000, which amounts to an additional cost of 10 basis points based on a \$30 million issuance.<sup>2</sup> BHE, therefore, expects to realize an “all-in cost” no higher than 7.23% for this issuance.

Until the rating was withdrawn in March 2003,<sup>3</sup> BHE held a senior debt rating of BBB (“Triple-B”) from Standard & Poors, which is equivalent to a Moody’s rating of Baa. As of June 23, 2003, Moody’s indicates that the current interest yield on long-term “Triple-B” utility debt is roughly 6.30%. This aggregate rate is indicative for maturities longer than 10 years, and includes secured as well as unsecured issuances. BHE’s proposed notes, being unsecured and thus more risky, would logically be expected to have a rate higher than a composite Moody’s average that includes secured debt. Since the notes will be marketed to a number of investors, we can be reasonably assured that BHE will receive an appropriate market rate on this offering. In addition, with the Company operating under an alternative rate-making plan (ARP), it has every incentive to make the appropriate decision regarding this securities issuance. Finally, the Company has stated that if bids received amount to an issuance spread that is less than 230 basis points over the index on the offering date, it will receive the lower rate.

Having reviewed the application of the Company, together with data filed in support of it, it is the opinion of the Commission that the proceeds of the issuance of the bonds are required in good faith for the purposes enumerated in 35-A M.R.S.A. §901. In approving this securities issue, consistent with normal practice and pursuant to §902(4), the Commission does not imply approval of the Company’s capital needs or capitalization ratio for ratemaking purposes, nor does this order limit or restrict the powers of the Commission in determining or fixing any rate.

Accordingly, we

## O R D E R

1. That Bangor Hydro-Electric Company is hereby authorized to issue up to \$30 million in unsecured notes, to be used solely for the purposes described in this Order, for a period not to exceed 15 years, at a fixed interest rate not to exceed 230 basis points (2.30%) over the prevailing rate on Treasury securities of a comparable maturity on the date of issuance.

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<sup>2</sup> The fee is quoted as “the greater of \$200,000 or 0.50% of total offering size.” Based on a \$30 million offering, \$200,000 is the greater amount. If however BHE offers the additional \$20 million later in the year, 0.50% of \$50 million combined is \$250,000. That would lower the issuance cost to 7 basis points over the life of the notes. BHE indicated that in the past year it has received multiple quotes on offerings of this size and that a fee of this magnitude was typical.

<sup>3</sup> BHE’s S&P rating was withdrawn at the Company’s request not as a result of any adverse financial event.

2. That the Company report to this Commission, in writing, its actions pursuant to this order within sixty (60) days of the date of the closing of this transaction.

3. That a copy of this Order be mailed to interested parties and this Docket be closed.

Dated at Augusta, Maine, this 7<sup>th</sup> day of July, 2003.

BY ORDER OF THE COMMISSION

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Dennis L. Keschl  
Administrative Director

COMMISSIONERS VOTING FOR: Welch  
Diamond

COMMISSIONER ABSENT: Reishus

## NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 21 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.